

# Lanarkshire Valuation Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

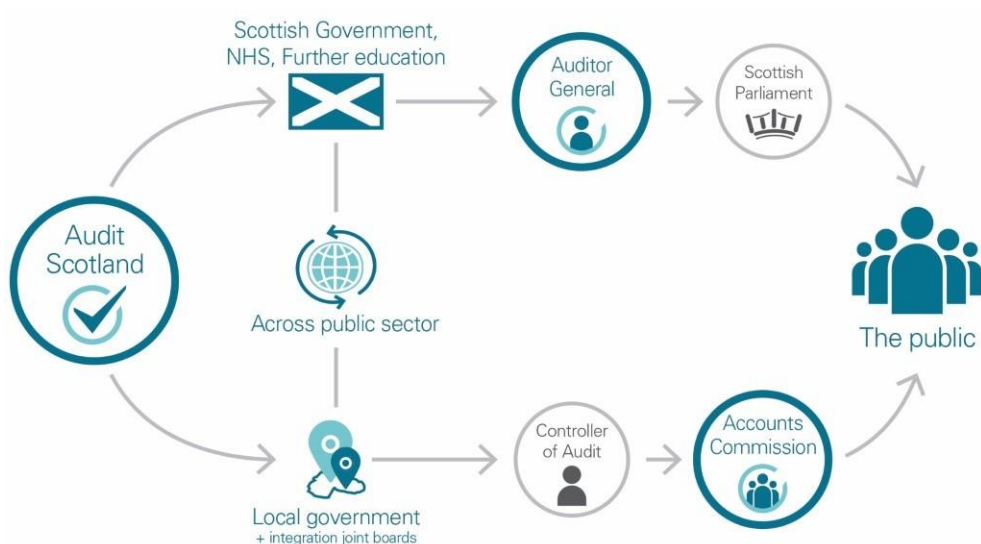
Prepared for Lanarkshire Valuation Joint Board

February 2021

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

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## Introduction

1. This audit plan provides an overview of the planned scope and timing of our audit of Lanarkshire Valuation Joint Board for 2020/21. Our audit is carried out in accordance with International Standards on Auditing and the [Code of Audit Practice](#), issued by Audit Scotland.
2. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and performance. We make a public report of conclusions on these matters in our annual audit report to the Joint Board and the Controller of Audit.

## Impact of Covid-19

3. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work, including annual accounts audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The safety of audit teams and client staff and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


4. We seek to add value to the Joint Board by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the organisation promote improved standards, better management and decision making, and more effective use of resources.


## Audit risks

5. Based on our experience of the organisation, discussions with staff, attendance at Joint Board meetings and a review of supporting information we have identified the key audit risks, [exhibit 1](#). We have categorised these risks into financial statements risks and wider dimension risks.

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Overarching financial statements and wider dimension risk</b>		
<p><b>1 Impact of Covid-19</b></p> <p>The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the Joint Board.</p> <p>Risk: The impact of Covid-19 will have a pervasive effect on all aspects of the Joint Board's operations and presents a wide range of risks for the 2020/21 audit.</p>	Owing to the nature of this risk, assurances from management are not applicable.	<ul style="list-style-type: none"> <li>• We will continue to monitor the governance arrangements, including any temporary measures put in place as a result of the pandemic.</li> <li>• We will review the Joint Board's ongoing budget monitoring and medium to longer term financial planning in the context of the challenges and uncertainties it is facing because of Covid-19.</li> <li>• We will continue to discuss our audit approach, and timetable with management during the year to agree on how we can work together to adapt and respond to the changing circumstances.</li> </ul>
<b>Financial statements risks</b>		
<p><b>2 Risk of management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	Owing to the nature of this risk, assurances from management are not applicable.	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>3 Risk of expenditure fraud</b></p> <p>Audit Scotland's Code of Audit Practice requires that auditors should plan to address the risk that the financial statements may be materially misstated as a result of fraud.</p>	In view of the nature of this risk, assurances from management are not applicable.	<ul style="list-style-type: none"> <li>• Payroll expenditure (2019/20 66% of expenditure) is well forecast and will be reconciled to the payroll system, the risk of material misstatement is not significant.</li> <li>• We will focus on non-pay expenditure. We consider any risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure using analytical procedures on expenditure streams as appropriate.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
<b>3 Estimation and judgments</b> <p>There is a significant degree of subjectivity in the measurement and valuation of the pension liability included in the balance sheet.</p> <p>The value of the pension liability is an estimate based on information provided by management and actuarial assumptions.</p>	<p>Any significant estimates and judgements are clearly explained in the Notes to the Accounts.</p> <p>Use of professional actuaries appointed by the Pension Fund to value pension liabilities.</p>	<ul style="list-style-type: none"> <li>• Assessment of the appropriateness of the actuarial assumptions.</li> <li>• Focused testing of pension disclosures.</li> </ul>

#### Wider dimension risks

<b>4 Impact on performance</b> <p>There is a risk that there will be insufficient resources to meet the increased operational needs in relation to:</p> <ul style="list-style-type: none"> <li>• the recommendations arising from the Barclay review of non-domestic rates.</li> <li>• potential increased workload arising from the demands of the designated assessor responsibility in the valuation of electricity utilities.</li> <li>• inability to attract suitably qualified staff.</li> </ul>	<p>Workforce plan to be updated.</p> <p>Resources are reviewed by management on a continuous basis.</p> <p>Management work closely with the Treasurer to the Board to identify any issues in both the short, medium and long term to ensure appropriate measures are taken to address these matters.</p>	<ul style="list-style-type: none"> <li>• Review of workforce plan</li> <li>• Ongoing discussions with key client staff.</li> <li>• Review of budget monitoring reports during the year and comment on the financial position within the annual audit report.</li> <li>• Review of performance indicators.</li> </ul>
<b>5 Scottish Parliamentary Elections</b> <p>Scottish Parliamentary Elections are scheduled for May 2021. A significant increase in registration and postal votes applications is expected.</p> <p>There is a risk that this increased workload, associated costs and the current software restrictions will impact on the requirements of the 2021 elections.</p>	<p>Resources are reviewed by management on a continuous basis.</p> <p>Regular dialogue with key Council staff and software suppliers on the required resources.</p> <p>Additional funds have been provided by the Scottish Government.</p>	<ul style="list-style-type: none"> <li>• Monitor Joint Board updates on preparation for the 2021 elections.</li> <li>• Review budget monitoring reports to identify additional costs associated with the elections.</li> </ul>

Source: Audit Scotland

**6.** International auditing standards require that auditors plan for a presumed risk of fraud over income. We have considered this risk in respect of the Joint Board which is funded, in the main, by North and South Lanarkshire councils. A further significant tranche of income is received from central government sources. Historically, and in the 2020/21 budget, this income exceeds 98% of the Joint Board's annual income. Taking account of controls in place, the nature of the Joint Board's income and the limited scope for the manipulation and extraction of income we assess that the risk of material misstatement arising from fraud over income is limited. This limitation is of such an extent that we have excluded the risk of fraud over income from our significant audit risks.

## Reporting arrangements

7. This plan and the outputs at [exhibit 2](#), will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy prior to the issue and publication of final reports.

9. We will provide an independent auditor's report to the Joint Board, and Accounts Commission setting out our opinions on the annual accounts. We will provide the Joint Board and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2

### 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2021	1 March 2021
Independent Auditor's Report	30 October 2021	6 September 2021
Annual Audit Report	30 October 2021	6 September 2021

Source: The target dates included are those specified in Audit Scotland's current planning guidance (2020/21).

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## Audit fee

10. The proposed audit fee for the 2020/21 audit of the Lanarkshire Valuation Joint Board is £7,610 (Prior year £7,450). In determining the audit fee, we have taken account of the risk exposure of the Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 30 June 2020.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Lanarkshire Valuation Joint Board and Treasurer

12. The Joint Board and Treasurer are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables the organisation to deliver its objectives.

13. The audit of the annual accounts does not relieve management or the Joint Board of their responsibilities.

### Appointed auditor

14. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 Audit Scotland's Code of Audit Practice and the auditing profession's ethical guidance.

# Audit scope and timing

## Annual accounts

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Joint Board and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Joint Board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free from material misstatement.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the Joint Board as at 31 March 2021 and of the income and expenditure for the year;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom;
- have been properly prepared in accordance with the financial reporting framework.



## Statutory information in the annual accounts

**17.** We also review and report on statutory information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance.

**18.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in other statutory information.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements give a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1% of gross expenditure based on 2020/21 budgeted expenditure.	£38,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£28,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£2,000

Source: Audit Scotland planning files

## Timetable

**20.** We have included an agreed timetable at [exhibit 4](#), which takes into account submission requirements and planned Joint Board meeting dates. While we will do our best to meet the target dates below, the dates will be subject to change if further issues arise from the Covid-19 disruption.

## Exhibit 4

### Annual accounts timetable

Key stage	Date
Consideration of unaudited annual accounts by those charged with governance	7 June 2021
Latest submission date of unaudited annual accounts with working papers package	30 June 2021
Latest date for final clearance meeting with the Treasurer	2 August 2021
Issue of proposed Annual Audit Report	5 August 2021
Approval of audited Annual Accounts by the Joint Board	6 September 2021
Issue of independent Auditor's Report	6 September 2021
Issue of Annual Audit Report	6 September 2021

Source: Audit Scotland

## Internal audit

**21.** The Joint Board has a service level agreement with the internal audit function of the host authority, South Lanarkshire Council. Our review of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the requirements of the Public Sector Internal Audit Standards (PSIAS). We will seek to rely on the work of internal audit wherever possible to avoid duplication of effort.

## Audit dimensions

**22.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

**23.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of the Joint Board.

**24.** However, we will review and comment on the Joint Board's performance against service performance indicators agreed between the Scottish Government and the Scottish Assessors' Association.

## Independence and objectivity

**25.** Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**26.** The appointed auditor for the Joint Board is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Joint Board.

## Quality control

**27.** International Standard on Quality Control 1 requires that a system of quality control be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**28.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) has been commissioned to carry out independent quality reviews.

**29.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead or directly to Audit Scotland's Audit Quality and Appointments team.

# Lanarkshire Valuation Joint Board

## Annual Audit Plan 2020/21

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